

**MINUTES OF THE MEETING OF  
THE OVERSIGHT COMMITTEE OF THE  
LOCAL GOVERNMENT PROPERTY INSURANCE FUND**

**MONDAY, APRIL 18, 2005**

**GEF 3  
125 S. WEBSTER STREET  
MADISON, WI 53702**

Present: Kevin Houlihan  
Eileen Mallow  
Dan Bubolz  
Peter Medley  
Glinda Loving  
Phillip Kress

Guests: Dave Marchant  
Fred Haring (by telephone)  
Lowell Carter  
Sue Hoffman

Eileen Mallow called the meeting to order at 9:05 a.m.

The agenda was reviewed and adopted as printed.

The minutes of the November 10, 2004 meeting were reviewed.

Upon a motion made by Dan Bubolz and seconded by Kevin Houlihan it was unanimously,

RESOLVED, that the minutes of the November 10, 2004 meeting are approved as presented.

**Administrator's Report**

Lowell Carter reviewed the claims data and noted that total losses on an annualized basis are higher than last year but mostly due to one large (\$2 million) loss. Claim counts are down. Average cost per claim is higher due to the reduced claim counts and insureds taking higher deductibles coupled with the one large loss. There are several outstanding large claims with subrogation potential of over \$2.4 million and numerous other claims with a potential total recovery of nearly \$1 million.

Sue Hoffman reported that insurance in force is up 2.2%, but annual premium in force is down by 5.3% due to higher deductibles and losing a number of policyholders. Fifty-five

accounts have been lost and 22 new policies have been written since the beginning of the fiscal year as of the end of February.

Dave Marchant discussed the Fund's computer system upgrade. The policy system has been converted and claims system went "live" on April 7. The next step for the system will involve examining the Statement of Values prototype to be included in the system. Dave also mentioned that he would like to receive a weekly check register from the State. Dan Bubolz indicated that getting a download on a weekly basis is not likely because the State has yet to release that electronic data in reports until it has gone through a month end closing process.

Lowell Carter reported on the progress of the Claims and Policy Issues Subcommittee regarding various tasks. Some updates have been made to certain valuation input forms; a subcommittee was formed to write guidelines for the purpose of assisting policyholders in avoiding waiver of subrogation issues related to new construction; the Total Component Method of appraisal is still being researched; and the principal task currently on-going is the policy re-write project. The group is not writing specific language changes, but recommending areas of change that would be drafted later by an attorney. The most important sections under review are Extra Expense, Law and Ordinance, Real Property Threshold, Unscheduled Property ("forgot" clause), Contractors Equipment (possible blanket coverage), and Underground Property (cables). Several of the suggested revisions result in new limitations while some result in broader coverage. The Policy and Claims subcommittee has been asked by the Advisory Committee to re-examine some of the subcommittee suggestions and present its report with final recommendations to the Advisory Committee at its October 2005 meeting.

Upon a motion by Dan Bubolz and seconded by Glinda Loving it was unanimously,

RESOLVED, that the Claims and Policy Issues Subcommittee report be approved as presented.

### **Manager's Report**

Dan Bubolz reported that Reinsurance layers have been renewed for another 12 months effective March 31, 2005, at expiring terms including full terrorism coverage, with an additional \$50 million in top layer coverage added while also realizing a substantial (\$741,000) premium reduction.

A Probable Maximum Loss study will be conducted this summer by the Fund through a contract with Willis on the top ten risks insured. Most are in the Milwaukee area and on-site visits will be made. The analysis will be looking primarily at the perils of fire, wind, as well as earthquake and terrorism modeling. When completed, the information will be used to analyze the excess of loss (reinsurance) program.

Dan reported that the Electronic Statement of Values project consists of three phases. First, collecting existing SOV data from American Appraisal and moving it into the

Fund's Pinsoft system. Second, making the data available on-line using a webserver for updates by the insured and also downloads (Excel spreadsheets) back to the insured. Dave Marchant is currently looking at the programming issues for Phase Two. And third, interfacing the developed Pinsoft and Webserver based applications with total component modeling (TCM) software for the purpose of updating statement of values information for trending and inflation. Paper copies of SOV's will still be issued for insurance purposes at policy renewal. And for those insured without internet access the plan is to have ASU key that information into the webserver database but the goal is to be as electronic (paperless) as possible.

Dan Bubolz also reported that the Total Component Method of appraisal trending is expected to generate more accurate replacement cost values than the Fund's present method. Insurers moving to the TCM basis have seen overall insurance inforce values increases of 12-15%. The Fund intends to address through its rating process any insurance inforce increases resulting from the change in trending methodology to keep premiums in balance.

An annual work plan and list of projects was also distributed and briefly discussed.

Upon a motion by Peter Medley and a second by Kevin Houlihan it was unanimously,

RESOLVED, that the Manager's report be approved as presented.

### **Financial Report**

Dan Bubolz discussed cash flow and liquidity. Twelve million dollars had been previously authorized last fall for movement into the Fund's long term investment account. Four million dollars has thus far been transferred by the State of Wisconsin Investment Board. SWIB has been taking a "reasoned" approach to this transfer not wanting to lock investments into a longer term market at lesser rates while expecting the market rates to increase.

Dave presented information showing how surplus has reached \$27 million, up from \$24 million last year. The Fund has achieved an underwriting gain of about \$2.5 million on direct premium of \$12.8 million. It's writing ratio is less than 1:1, which is very good ratio by industry standards. A very good combined ratio of 77% has also been accomplished.

Eileen Mallow reported that the Legislative Auditor Bureau is still working on the fiscal year 2001 to 2004 financial audits of the Fund. The discussion noted that the delay in the audit report resulted primarily from claim files having been prematurely destroyed by the former administrative contractor, Aon Risk Services. It is likely that ASU Group will be assisting the Fund with the reconstruction of those claim files.

Upon a motion by Glinda Loving and seconded by Dan Bubolz it was unanimously,

RESOLVED, that the financial report be approved as presented.

### **Actuarial Report**

Dan Bubolz reported a new actuarial consulting firm, AMI Risk Consultants of Miami, FL., has been retained following a competitive bid process. AMI reviewed the Fund's losses and premium data for the past five fiscal years using accepted actuarial pricing principles and an approach not materially different from the former actuarial consulting firm. Rate indications issued in AMI's report noted redundancy in all lines of business. Working from that actuarial report the Rating Subcommittee and Advisory Committee have forwarded their rating recommendations which are contained under the section of these minutes entitled Advisory Committee Review.

AMI also reviewed the deductible credits and their appropriateness but indicated not enough credible data has yet developed to support a preliminary finding that the \$500 deductible credit may be too generous and the higher credits may be too conservative. This analysis will be conducted again next year using another's year of developed claim experience with the revised deductible levels.

### **Advisory Committee Review**

Kevin Houlihan provided a brief overview of the Advisory Committee meeting. Three new members are now seated – Ken Tronnier of Portage County, Peter Masias of the City of Green Bay, and Diane Pertzborn of Lodi Schools.

Three motions from the Advisory Committee were presented for Oversight Committee consideration. Following discussion all three motions, noted below, were unanimously approved by the Oversight Committee. For the record Phil Kress had to leave the meeting and was not in attendance during these votes.

1. Resolved, that the Oversight Committee accept the recommendation from the Advisory Committee/Rate Analysis Subcommittee to adopt the two most recent Experience Loss Adjustments from Insurance Services Office effective December 1, 2005 for renewal business which would result in approximately a 16.3% reduction in ISO loss costs found in ISO Circulars LI-CF-2003-158 and LI-CF-2004-087. Motion moved by Kevin Houlihan, seconded by Dan Bubolz and unanimously approved.
2. Resolved, that the Oversight Committee accept the recommendations from the Advisory Committee/Rate Analysis Subcommittee to reduce rates by 7.6% on Auto Physical Damage, 13.2% on Burglary and Theft, and 12.9% on Inland Marine effective July 1, 2005. Motion moved by Kevin Houlihan, seconded by Peter Medley, and unanimously approved.

3. Resolved, that the Oversight Committee approve the recommendations and future activity of the Advisory Committee/Claims and Policy Issues Subcommittee as outlined in their report of April 6, 2005, with the understanding that they agree to revisit the "Forgot" clause and Extra Expense Coverage recommendations. Motion by Kevin Houlihan, seconded by Peter Medley to accept the report, as presented, was unanimously approved.

A discussion of Fund surplus followed the reading of the motions. It was agreed that the Advisory Committee had recommended a 1 to 1 ratio (premium to surplus) at a previous meeting and this goal has been met.

### **Additional Topics**

Dave Marchant and Sue Hoffman provided reports showing examples of rates for new business in 2003 and the change in rates on these accounts when written with ISO in 2004. A report was also provided showing the "average" blanket average rates by entity. A comparison was made of blanket average rates and entity average ISO Loss Costs. The results showed that the blanket average rates are from 33.99% to 48.91% high.

A motion by Dan Bubolz and seconded by Kevin Houlihan that effective July 1, 2005 new business rates for towns be reduced by 50% and new business rates for all other entities be reduced by 35% was unanimously approved.

Eileen Mallow will present all of the suggested rate revisions to the Commissioner in the next few days.

### **Next Meeting**

The next meeting of the Oversight Committee will be October 26, 2005 at 9:00 a.m. in room 116 of the OCI office at 125 South Webster Street, Madison, WI

Eileen Mallow adjourned the meeting at 11:45 a.m.

Respectfully submitted,

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Lowell Carter, Acting Secretary

Date

ATTEST:

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Eileen Mallow, Chair

Date